

PERAC AUDIT REPORT



Medford Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2003 / PERAC 03: 11-058-16



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July 25, 2005

The Public Employee Retirement Administration Commission has completed an examination of the Medford Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2001 to December 31, 2003. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Carol Niemira and James Sweeney who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Medford Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

1. Annual Statement

Based upon inspection of the Annual Statements filed by the Board for the three-year audit period, it was determined that certain line item amounts contained in the Annual Statement did not match the detailed supporting schedules. Variances were found in realized and unrealized gains and losses. Supporting Schedule 6 was incomplete in the 2001 and 2003 Annual Statement. The Annual Statement does balance to the general ledger.

Recommendation:

As a sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement allowing readers to make an accurate assessment of the system's financial condition without having to reference the general ledger. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year. Differences in custodian-provided schedules should be corrected, if needed, and reconciled to the general ledger prior to submission of the Annual Statement.

Board Response:

A new complete Schedule #6 for 2001 and 2003 [is] enclosed. Also the 22 cents error on Schedule A has been corrected. It was stated that 2003's cash is duplicated, however, this was just stated incorrectly. See attached back up which shows that this is paid accrued interest. The Auditor explain[ed] that the difference in realized and unrealized gains/losses is because of the inclusion of the Pooled funds (Per Jeanne).

2. Reconciliation of Cash Accounts

The Medford Retirement System has three bank checking accounts. The three bank accounts are maintained by the City of Medford Treasurer's Office; however only two of the bank accounts are maintained on the general ledger of the City of Medford Retirement System. The activity in these two bank accounts (Century Bank Account No. 24627, and Bank of America Account No. 79652-7828) are consolidated into general ledger account number 1041. The third account, Bank of America Account No. 3962, is not recorded on the Retirement System's general ledger. This was also a finding in PERAC's previous examination of the Medford Retirement System for the period January 1, 1998 to December 31, 2000.

The Board only receives a list of outstanding checks for the Century Bank account. As of November 2004, there is one outstanding check issued in September 2003.

Recommendation:

The Medford Retirement System must maintain separate general ledger accounts for all checking accounts. It is recommended to close the Bank of America Account, 79652-7828, since this account is simply a holding account and serves no useful purpose. The Treasurer must inform the Board of

Medford Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

the account closing and the general ledger cash account (1041) must be adjusted and correctly stated. A new general ledger account for the Bank of America Account No. 3962 must be created and balanced to the Treasurer's reconciliation.

The Board must receive a list of outstanding checks from the Treasurer for all checking accounts and research any stale check not cleared within six months, so that the proper voiding and recording of these items can be completed.

Board Response:

Account #7828. A letter was addressed to the City Treasurer to close out the account and we have asked for written confirmation when the account is officially closed out. A back up letter to the Treasurer is enclosed.

A new general ledger account has been created in the general ledger, see enclosed trial balance. Also in question is a list of outstanding checks for Century's Bank Account. The check in question was void[ed] prior to the auditors' arrival, see enclosed back up.

3. Warrants

Monthly expense warrants were reviewed for the three-year audit period. The monthly expenditures are approved by vote of the Board at the monthly meetings. The warrants are generated by the Board staff and are then stamped with the Chairman's signature, initialed by the Administrator, and signed by the Ex-officio. This is in violation of G.L. c. 32, § 23 (2)(a) and does not provide adequate segregation of duties when expending the Medford Retirement System funds.

Recommendation:

G.L. c.32, § 23 (2)(a) states that disbursements of funds must be authorized by vote of the Board and that the Treasurer as custodian of the funds shall make "Payments from such funds shall be made by him only upon vouchers signed by two persons designated by the board of any such system by a vote..." The Board should designate two individuals to sign the warrants keeping in mind that the duty should be segregated from the person generating the warrants.

Board Response:

Enclosed is a copy of the Board minutes for February 2005 giving the Board members and Tina Rapatano permission to sign the payroll.

4. Member Refunds

Member refunds were incorrectly calculated in 3 of 28 (11%) refunds sampled over the three-year period from 2001-2003. One member received 50% interest, which should have been zero, one member received 50%, when entitled to 100%, and one member received 100% when the member should have received zero interest. In the previous audit report member refunds were incorrectly calculated in 4 of 30 (13%) refunds reviewed over the three-year period from 1998-2000.

Medford Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Recommendation:

The Medford Retirement System should request, in writing, that the former members, who received excess accumulated interest, return the monies to the system. A refund should be given to the former member who was owed 100% interest but did not receive it. Due care must be taken in calculating a member's refund, especially with regard to the return of accrued interest based on creditable service stipulated in G.L. c. 32, § 11(1), and whether the termination is voluntary or involuntary.

Board Response:

C. Donovan was given a refund of \$77.66 for interest due her, see enclosed Schedule #9. Also enclosed are copies of the following letters written to Andrea Carr and Laura Lidano-Saunders, asking for the interest that was given to them in excess. Also see Board minutes for Feb 2005, noting if money is not returned, they voted to write it off.

5. Member Deductions

The auditor sampled members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who earn over \$30,000 and were hired after January 1, 1979. The sample yielded a 9% (4 of 43) error rate. There was 1 member with the wrong deduction rate being withheld, 2 members earning over \$30,000 who were not having the additional 2% withheld, and 1 member for whom the 2% contribution amount was incorrect.

Recommendation:

The Board has directed the payroll officer to correct the errors identified. The Board should routinely monitor deductions to ensure compliance with G.L. c. 32, § 22 (1) (b) and (1) (b1/2), and ensure that the payroll officers comply with PERAC MEMO # 43/1999, defining the methodology used to calculate the 2% additional deductions.

Board Response:

Lynn Barlow and Ed O'Neil have received refunds of their 2% overpayment, see Schedule #9, and their 2 % deductions have been corrected in the payroll computer.

Frances Bartalini has been changed in the payroll computer from a 9% to an 8%, see enclosed letter from Jeanne. Also a refund of the overpayment will be made.

Shannon Hubble and William Storella have started 2% deduction on the payroll, see enclosed letter by Jeanne, and a make up payment for the difference owed will be paid.

Claire Citrano's 2% deduction has been corrected and a make up payment will be made by her.

Medford Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

6. Membership Regulations

The Medford Retirement System has not promulgated creditable service regulations for part time employees. This was also a finding in the previous PERAC audit report.

Recommendation:

The Medford Retirement System should establish and submit to PERAC for approval, creditable service regulations for part time employees who work a consistent minimum number of weekly hours for the City of Medford or the Medford Housing Authority.

Board Response:

The Board has written to PERAC to promulgate part time service and PERAC has stated that they will review the matter and contact the office in writing at a later date.

7. Review of Board Minutes

Board Meeting Minutes were reviewed from January 2001 through November 2004. The Board stopped using pre-numbered pages in November 1999. Beginning in November 2003, every other page is left blank. During this time, the quality of the format became unprofessional and the pages difficult to read.

Recommendation:

In accordance with G.L. c. 32, § 21(1) and Division of Insurance memo dated February 25, 1981 the pages of the Minutes must be pre-numbered or initialed by Board members. Pages intentionally left blank should be marked "intentionally left blank." It is also recommended that Minutes be formally bound periodically in permanent covers to adequately preserve the long-term integrity of these vital records. As a permanent record, the Minutes must be prepared in a professional manner.

Board Response:

The Boards secretary had retired on 7/14/03. She remains the secretary and started to do the minutes on her home computer. The typing format has been corrected. Also we are using a brand new book for the minutes with numbers, and we are marking the blank pages, "intentionally left blank" where needed.

General Board Comment Included in Response:

Page 10 rate of return for the investments: This is a concern for me that the rate is so high, I have sent all the Board members copies of this draft and I feel that it is the Bookkeeping of the realized and unrealized gains that is being recorded incorrectly. This will be further investigated.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that appropriate actions have been taken regarding all audit findings.

Medford Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2003	2002	2001
Cash	\$398,614	\$332,823	\$385,854
Short Term Investments	2,808,649	1,717,420	1,921,780
Fixed Income Securities (at book value)	34,926,295	38,653,258	42,339,791
Equities	32,272,302	24,528,417	27,034,111
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	13,644,397	12,640,082	18,646,457
Pooled International Equity Funds	13,639,692	6,492,314	3,834,264
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	5,980,211	5,181,364	0
Pooled International Fixed Income Funds	0	0	0
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	0	0	0
Pooled Real Estate Funds	1,082,896	1,223,643	1,971,140
Pooled Domestic Balanced Funds	12,594,961	9,751,756	11,165,392
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	390,425	461,052	700,852
Accounts Receivable	134,227	673,771	3,337,952
Accounts Payable	(98,506)	(140,422)	(\$119,151)
TOTAL	<u>\$117,774,163</u>	<u>\$101,515,478</u>	<u>\$111,218,441</u>
FUND BALANCES			
Annuity Savings Fund	\$27,605,694	\$28,736,622	\$27,009,452
Annuity Reserve Fund	12,994,053	10,255,734	10,395,124
Pension Fund	7,589,204	11,455,470	14,154,496
Military Service Fund	3,009	3,009	2,961
Expense Fund	0	0	0
Pension Reserve Fund	69,582,203	51,064,643	59,656,408
TOTAL	<u>\$117,774,163</u>	<u>\$101,515,478</u>	<u>\$111,218,441</u>

Medford Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2001)	\$26,043,387	\$9,866,266	\$15,899,104	\$2,896	\$0	\$58,584,904	\$110,396,557
Receipts	2,913,377	300,935	7,701,084	65	554,964	1,071,504	12,541,929
Interfund Transfers	(1,538,047)	1,534,927	3,120	0	0	0	0
Disbursements	(409,264)	(1,307,004)	(9,448,812)	0	(554,964)	0	(11,720,045)
Ending Balance (2001)	27,009,452	10,395,124	14,154,496	2,961	0	59,656,408	111,218,441
Receipts	3,081,038	304,870	6,891,242	49	547,760	(8,592,300)	2,232,658
Interfund Transfers	(919,279)	918,745	0	0	0	534	(0)
Disbursements	(434,589)	(1,363,006)	(9,590,268)	0	(547,760)	0	(11,935,622)
Ending Balance (2002)	28,736,622	10,255,734	11,455,470	3,009	0	51,064,643	101,515,478
Receipts	2,948,841	363,678	7,049,766	0	539,838	18,517,946	29,420,070
Interfund Transfers	(3,855,981)	3,868,390	(12,024)	0	0	(386)	0
Disbursements	(223,789)	(1,493,749)	(10,904,008)	0	(539,838)	0	(13,161,384)
Ending Balance (2003)	<u>\$27,605,694</u>	<u>\$12,994,053</u>	<u>\$7,589,204</u>	<u>\$3,009</u>	<u>\$0</u>	<u>\$69,582,203</u>	<u>\$117,774,163</u>

Medford Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Annuity Savings Fund:			
Members Deductions	\$2,494,897	\$2,592,000	\$2,349,753
Transfers from other Systems	169,955	52,266	79,720
Member Make Up Payments and Redeposits	29,498	69,824	7,062
Investment Income Credited to Member Accounts	<u>254,492</u>	<u>366,947</u>	<u>476,841</u>
Sub Total	<u>2,948,841</u>	<u>3,081,038</u>	<u>2,913,377</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>363,678</u>	<u>304,870</u>	<u>300,935</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	109,826	63,431	86,448
Received from Commonwealth for COLA and			
Survivor Benefits	593,971	688,983	745,093
Pension Fund Appropriation	<u>6,345,969</u>	<u>6,138,828</u>	<u>6,869,543</u>
Sub Total	<u>7,049,766</u>	<u>6,891,242</u>	<u>7,701,084</u>
Military Service Fund:			
Contribution Received from Municipality on Account			
of Military Service	0	0	
Investment Income Credited Military Service Fund	<u>0</u>	<u>49</u>	<u>65</u>
Sub Total	<u>0</u>	<u>49</u>	<u>65</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>539,838</u>	<u>547,760</u>	<u>554,964</u>
Sub Total	<u>539,838</u>	<u>547,760</u>	<u>554,964</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	38,941	107,783	23,210
Pension Reserve Appropriation	0	0	8,039
Interest Not Refunded	1,383	5,493	4,090
Excess Investment Income	<u>18,477,622</u>	<u>(8,705,575)</u>	<u>1,036,165</u>
Sub Total	<u>18,517,946</u>	<u>(8,592,300)</u>	<u>1,071,504</u>
TOTAL RECEIPTS	<u>\$29,420,070</u>	<u>\$2,232,658</u>	<u>\$12,541,929</u>

Medford Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001
Annuity Savings Fund:			
Refunds to Members	\$73,915	\$185,488	\$362,372
Transfers to other Systems	<u>149,874</u>	<u>249,101</u>	<u>46,892</u>
Sub Total	<u>223,789</u>	<u>434,589</u>	<u>409,264</u>
Annuity Reserve Fund:			
Annuities Paid	1,478,652	1,231,881	1,186,255
Option B Refunds	<u>15,097</u>	<u>131,125</u>	<u>120,750</u>
Sub Total	<u>1,493,749</u>	<u>1,363,006</u>	<u>1,307,004</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	6,544,956	5,479,008	5,247,062
Survivorship Payments	499,408	492,779	451,832
Ordinary Disability Payments	160,158	126,487	160,684
Accidental Disability Payments	2,633,539	2,454,076	2,516,188
Accidental Death Payments	696,845	723,189	774,810
Section 101 Benefits	97,625	92,127	88,662
3 (8) (c) Reimbursements to Other Systems	271,477	222,602	209,575
State Reimbursable COLA's Paid	-	-	-
Chapter 389 Beneficiary Increase Paid	-	-	-
Sub Total	<u>10,904,008</u>	<u>9,590,268</u>	<u>9,448,812</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	14,000	12,000	12,000
Salaries	157,643	158,039	148,557
Legal Expenses	525	0	0
Medical Expenses	0	0	0
Travel Expenses	3,092	4,975	2,917
Administrative Expenses	25,604	20,988	39,747
Furniture and Equipment	0	0	0
Management Fees	253,095	269,152	271,538
Custodial Fees	40,929	42,606	40,205
Consultant Fees	<u>44,950</u>	<u>40,000</u>	<u>40,000</u>
Sub Total	<u>539,838</u>	<u>547,760</u>	<u>554,964</u>
TOTAL DISBURSEMENTS	<u>\$13,161,384</u>	<u>\$11,935,622</u>	<u>\$11,720,045</u>

Medford Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Investment Income Received From:			
Cash	\$1,875	\$4,585	\$8,505
Short Term Investments	22,609	37,866	72,370
Fixed Income	2,070,731	2,702,005	2,728,222
Equities	388,993	317,668	326,479
Pooled or Mutual Funds	<u>407,465</u>	<u>2,627,743</u>	<u>1,739,008</u>
Commission Recapture	<u>12,765</u>	<u>20,819</u>	<u>9,625</u>
TOTAL INVESTMENT INCOME	<u>2,904,438</u>	<u>5,710,687</u>	<u>4,884,210</u>
Plus:			
Increase in Amortization of Fixed Income Securities	0	0	502,116
Realized Gains	1,080,467	529,295	1,017,461
Unrealized Gains	18,815,513	6,691,856	7,134,048
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>390,425</u>	<u>461,052</u>	<u>700,852</u>
Sub Total	<u>20,286,405</u>	<u>7,682,203</u>	<u>9,354,477</u>
Less:			
Decrease in Amortization of Fixed Income Securities	0	0	0
Paid Accrued Interest on Fixed Income Securities	(51,291)	(113,602)	(169,777)
Realized Loss	(770,127)	(4,487,970)	(1,835,583)
Unrealized Loss	(2,272,743)	(15,576,416)	(9,202,927)
Custodial Fees Paid	-	-	-
Consultant Fees Paid	-	-	-
Management Fees Paid	-	-	-
Board Member Stipend	-	-	-
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(461,052)</u>	<u>(700,852)</u>	<u>(661,431)</u>
Sub Total	<u>(3,555,213)</u>	<u>(20,878,840)</u>	<u>(11,869,717)</u>
NET INVESTMENT INCOME	<u>19,635,630</u>	<u>(7,485,950)</u>	<u>2,368,969</u>
Income Required:			
Annuity Savings Fund	254,492	366,947	476,841
Annuity Reserve Fund	363,678	304,870	300,935
Military Service Fund	0	49	65
Expense Fund	<u>539,838</u>	<u>547,760</u>	<u>554,964</u>
TOTAL INCOME REQUIRED	<u>1,158,008</u>	<u>1,219,626</u>	<u>1,332,805</u>
Net Investment Income	<u>19,635,630</u>	<u>(7,485,950)</u>	<u>2,368,969</u>
Less: Total Income Required	<u>1,158,008</u>	<u>1,219,626</u>	<u>1,332,805</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$18,477,622</u>	<u>(\$8,705,575)</u>	<u>\$1,036,165</u>

Medford Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$398,614	0.34%	100
Short Term	2,808,649	2.39%	100
Fixed Income	34,926,295	29.76%	40 - 80
Equities	32,272,302	27.50%	60
Pooled Short Term Funds	0	0.00%	
Pooled Domestic Equity Funds	13,644,397	11.63%	
Pooled International Equity Funds	13,639,692	11.62%	5
Pooled Global Equity Funds	0	0.00%	
Pooled Domestic Fixed Income Funds	5,980,211	5.10%	
Pooled International Fixed Income Funds	0	0.00%	
Pooled Global Fixed Income Funds	0	0.00%	
Pooled Alternative Investment Funds	0	0.00%	
Pooled Real Estate Funds	1,082,896	0.92%	10
Pooled Domestic Balanced Funds	12,594,961	10.73%	
Pooled International Balanced Funds	0	0.00%	
PRIT Cash Fund	0	0.00%	
PRIT Core Fund	0	0.00%	100
GRAND TOTALS	<u><u>\$117,348,017</u></u>	<u><u>100.00%</u></u>	

For the year ending December 31, 2003, the rate of return for the investments of the Medford Retirement System was 20.58%. For the five-year period ending December 31, 2003, the rate of return for the investments of the Medford Retirement System averaged 6.54%. For the 19-year period ending December 31, 2003, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Medford Retirement System was 10.97%.

Medford Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Medford Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

March 13, 2002

16.08 In Accordance with Investment Guideline 99-2, the Medford Retirement Board is authorized to modify its small cap value mandate with Loomis, Sayles & Company. The Small Company Value Fund in which the Board is currently invested is be closed and liquidated by the company. The Board's assets invested in that fund will be transferred into the Loomis Sayles Small Cap Value Fund, which has the same investment strategy, is managed by the same team, and has the same experiences as the prior fund.

September 3, 1997

20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market, including international equities which shall not exceed 5% of the portfolio valued at market.

January 12, 1995

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process; and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

July 28, 1992

20.03(1) (a) Domestic equities shall not exceed 45% of the total book value of the portfolio at the time of purchase.

(b) International equities shall not exceed 5% of the total book value of the portfolio at the time of purchase.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

December 11, 1991

16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the value of the fund for the first \$5 million; and
- (b) 0.5% of the value of the fund in excess of \$5 million.

Medford Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

December 11, 1991

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

March 12, 1990

20.07(9) Real estate investments shall not exceed 10% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and partnerships, provided that:

(a) trust participants or limited partners do not participate in the selection of trustees or general partners and should a trust participant or limited partner be required to participate in the selection of a trustee or general partner, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action, and

(b) such trustees or general partners retain authority in the decision making process, and

(c) should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

Medford Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Medford Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Medford Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Medford Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Medford Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

July 22, 1988

SCHOOL PHYSICIANS are allowed one (1) year of creditable service for each ten (10) months of school year employment.

PERMANENT PART-TIME ELEMENTARY SCHOOL CLERKS - are allowed one (1) year of creditable service based on five (5) days per week, 5 1/4 hours per day, 180 days per school year.

Medford Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Supplementary Membership Regulations Continued

July 22, 1988

SCHOOL LUNCHROOM EMPLOYEES - who work (6) hours per day, five (5) days per week, forty (40) school weeks per year are allowed one (1) year of creditable service. For each 1200 hours, (30 x 40) they are granted one (1) year of creditable service.

TRAFFIC SUPERVISORS - who work three (3) hours per day, for five (5) days per week, ten (10) school months per year, are allowed one (1) year of creditable service.

SCHOOL HEALTH AIDS- employed fifteen (15) hours per week, 180 days per school year, are granted one (1) year of creditable service.

Medford Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Mellon Human Resources & Investor Solutions as of January 1, 2003.

The actuarial liability for active members was	\$91,181,114
The actuarial liability for retired members was	89,334,291
The total actuarial liability was	180,515,405
System assets as of that date were	116,873,389
The unfunded actuarial liability was	<u>\$63,642,016</u>
 The ratio of system's assets to total actuarial liability was	 64.7%
As of that date the total covered employee payroll was	\$31,112,227

The normal cost for employees on that date was 7.70% of payroll

The normal cost for the employer was 7.30% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.50% per annum

Rate of Salary Increase: 4.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2003	\$116,873,389	\$180,515,405	\$63,642,016	64.7%	\$31,112,227	204.56%
1/1/2001	\$110,396,557	\$161,786,782	\$51,390,225	68.2%	\$29,787,856	172.52%
1/1/1998	\$84,451,719	\$138,357,249	\$53,905,530	61.0%	\$24,409,774	220.84%

Medford Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Superannuation	11	17	10	15	24	11	14	19	12	58
Ordinary Disability	1	1	1	0	0	1	1	0	0	3
Accidental Disability	0	2	3	1	0	5	6	5	1	4
Total Retirements	12	20	14	16	24	17	21	24	13	65
Total Retirees, Beneficiaries and Survivors	639	636	655	628	654	627	650	681	676	706
Total Active Members	700	713	723	764	763	923	904	806	805	740
Pension Payments										
Superannuation	\$3,961,695	\$4,119,230	\$4,272,932	\$4,691,040	\$4,628,415	\$4,818,852	\$4,944,347	\$5,247,062	\$5,479,008	\$6,544,956
Survivor/Beneficiary Payments	154,178	392,777	396,307	417,503	416,985	307,356	447,033	451,832	492,779	499,408
Ordinary Disability	1,944,823	147,846	129,413	123,497	125,806	128,134	136,739	160,684	126,487	160,158
Accidental Disability	345,588	1,883,758	1,997,543	2,024,372	2,019,714	2,144,365	2,390,222	2,516,188	2,454,076	2,633,539
Other	<u>940,821</u>	<u>805,722</u>	<u>858,998</u>	<u>909,134</u>	<u>1,075,128</u>	<u>1,159,448</u>	<u>1,072,155</u>	<u>1,073,047</u>	<u>1,037,918</u>	<u>1,065,947</u>
Total Payments for Year	<u>\$7,347,105</u>	<u>\$7,349,333</u>	<u>\$7,655,193</u>	<u>\$8,165,546</u>	<u>\$8,266,048</u>	<u>\$8,558,155</u>	<u>\$8,990,496</u>	<u>\$9,448,812</u>	<u>\$9,590,268</u>	<u>\$10,904,008</u>

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